



**Director of
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CUBA: Implications of Castro's Speech

President Castro's major address on Central America yesterday was aimed at gaining the propaganda advantage without committing Cuba to any course of action. [redacted]

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The speech was uncharacteristically short and was delivered from a prepared text. Castro voiced support for the Contadora initiative on negotiations but offered no new ideas to advance the peace effort. He accused the US of being the cause of tensions in the region. [redacted]

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Press conferences by Cuba's chief foreign policy officials—Vice President Rodriguez and the Foreign Ministry's Latin America chief, Ricardo Alarcon—preceded the address. Castro's letter to Panamanian President de la Espriella was made public in Panama just before the speech. [redacted]

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Comment: Castro's brevity and decision to forgo an extemporaneous presentation in favor of a written text suggest a careful effort to convey precisely Cuba's intentions. He appears to be gravely concerned about US military activities in the region and seems frustrated by his lack of means—beyond political and diplomatic maneuvering—to counter Washington. [redacted]

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The speech gave no indication of Cuban willingness to compromise or to play a major role in efforts to ease regional tensions. This is likely to cost Havana some international support. [redacted]

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ISRAEL: Begin Faces No-Confidence Votes

Prime Minister Begin's government probably will survive the three no-confidence motions it faces today in the Knesset, despite new strains in the ruling coalition. [REDACTED]

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The no-confidence motions were introduced by the opposition Labor Alignment, the two-man Shinui Party, and the four Communist members in the Knesset. They criticize the government's handling of the economy and social issues. Four Knesset members from one of the religious parties in the coalition are threatening to vote with the opposition unless the Knesset approves a bill to restrict archeological excavations. [REDACTED]

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Meanwhile, former Prime Minister Rabin on Sunday told a meeting of the Labor Party faction in the Knesset that he will challenge Chairman Peres for the party's leadership, especially if elections are held before the end of the year. [REDACTED]

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Comment: The voting is likely to be close. Most coalition partners will close ranks behind the government rather than risk losing the benefits of office. [REDACTED]

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The Knesset's summer recess, which begins after the session today, will give frictions in the government time to subside. At the same time, the resurgence of the rivalry between Peres and Rabin reinforces the already widespread impression that Labor offers no alternative to a Begin-led government. [REDACTED]

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EL SALVADOR: Possible Election Snags

Pressures are building to postpone the presidential election until early next year. [redacted]

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The US Embassy reports that leaders of the National Conciliation Party are citing the need for more time to approve the draft constitution and to prepare an electoral register. They say that it would be difficult to hold honest elections without a register and that the smaller parties all want one. In addition, they argue that elections should not be limited to president and vice president but should include mayors and deputies to encourage leftist participation. [redacted]

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Comment: Christian Democratic candidate Duarte's head start in the election campaign may be causing the other parties to have second thoughts about an early election. In any case, if the National Assembly fails to ratify the new constitution by the end of next month, postponement of the election date may be inevitable. [redacted]

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CHAD: Problems on Two Fronts

Military activity remains centered on the anticipated battle for Faya-Largeau, while dissidents have begun to cause problems for the government in the south. [redacted]

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A government official says Habre's troops have been mopping up around Fada. [redacted]

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Officials in N'Djamena also claim that dissidents based in the south are becoming more active. Government units have lost some men and equipment in recent clashes with widely scattered bands.

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The insurgents, with the help of their Libyan advisers, have demonstrated their ability to set up well-planned defenses. They outnumber Habre's attackers in both men and equipment. [redacted]

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The southern dissidents are still disorganized and poorly equipped. They have a free hand, however, because the government has stripped the south of troops and supplies. [redacted]

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ZAIRE-US: President Mobutu's Visit

President Mobutu, who visits Washington next week, is likely to cite his military support for the Chadian regime in making his case for increased US military and economic aid. []

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Zaire now has 1,500 to 1,750 troops in Chad. Their primary mission is to help protect N'Djamena to free more of President Habre's troops for fighting Libyan-backed dissidents in the north. []

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The Zairians also have stationed three Mirage fighters and at least three light attack aircraft in Chad. The Zairian C-130 that has been helping to resupply government forces has suffered mechanical difficulties. []

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Comment: In appealing for greater US assistance, Mobutu also probably will point to economic and administrative reforms his government has undertaken in the past year. At the urging of the IMF and Western lenders, Kinshasa has taken steps to reduce its large budget deficit, stimulate agricultural production, and return some nationalized firms to private ownership. []

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Mobutu, moreover, may suggest that several political decisions he has taken make his regime deserving of additional US support. His government launched a crackdown on corruption late last year, but the campaign has tapered off in recent weeks. Under a political amnesty decreed this May, opposition leaders have been released from jail and a few prominent exiled dissidents have returned to Zaire. []

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In the foreign policy area, the President may assert that his decision last year to reestablish diplomatic ties with Israel reflects political courage and Zairian support for Western interests. Mobutu also may contend that the French-African summit he successfully hosted last year, at a time when other African leaders were unable to convene an OAU summit, affirmed his status as a key African statesman. []

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Zaire's relations with the US have improved considerably following a period of uneasiness last year, when Mobutu briefly renounced US aid in reaction to Congressional criticism of his regime and cuts in the Administration's aid request for Zaire. Since then, visits to Kinshasa by Vice President Bush and several other senior US officials have assuaged the Zairian leader. []

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ISRAEL: Violence in the West Bank

Tensions remain high in the West Bank following the attack yesterday on a university in Hebron in which at least three Arab students were killed. [REDACTED]

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Comment: Most Arabs believe that the attack was the work of militant Jewish settlers from the nearby Qiryat Arba settlement. It will further aggravate the badly strained relations between Arabs and Jews in Hebron and could lead to retaliatory actions by Arabs on settlers. The incident also may cause Arab states to revive their efforts to obtain a UN Security Council resolution condemning Israeli practices in the occupied territories. [REDACTED]

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SAUDI ARABIA: New Ambassadorial Appointments

King Fahd yesterday named new ambassadors to several countries that are critical to Saudi foreign policy interests. In addition to naming Prince Bandar as ambassador to the US, the King appointed new envoys to Iraq, Lebanon, and North Yemen. The 34-year-old Bandar is Fahd's nephew and the son of Defense Minister Sultan. He has been the King's unofficial envoy to the US since Fahd assumed the throne. [REDACTED]

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Comment: Bandar's elevation to ambassador may provoke additional controversy for Fahd at home. Crown Prince Abdallah and his supporters in the royal family may view the appointment as another attempt by Fahd to staff the government with loyalists. [REDACTED]

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**INDIA-UK: Purchase of Helicopters and Missiles**

India has signed contracts with British firms for the purchase of new ASW helicopters and air-to-surface missiles. One contract is for 20 of the latest model Sea King helicopter, and another is for Sea Eagle missiles, the first export of the advanced ocean-skimming missile. British press reports say that the contracts are valued at about \$380 million. This is India's largest purchase from the UK since a deal for Jaguar aircraft in 1979.

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Comment: The purchases are part of New Delhi's continuing effort to strengthen the naval air arm of its growing blue-water Navy. Some of the helicopters probably will be placed on new Indian-built guided-missile frigates, the first of which is expected to enter service this year. Others are likely to replace older models on India's aircraft carrier, which also is to receive British Sea Harrier strike aircraft this year.

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Special Analysis

USSR: Oil Supply Prospects for the 1980s

After three decades of large and steady increases that were running at 5 to 7 percent annually during the 1970s, oil production in the USSR has grown at less than 1 percent during the 1980s. The Soviet press reports that production now stands at 12.4 million barrels per day. Moscow should come close to, if not meet, its goal in 1985 of 12.6 million barrels per day. Thereafter, given current levels of effort, production probably will level off and decline slowly to between 11 million and 12 million barrels per day by 1990. Output from the 12 largest oilfields, including the immense one at Samotlor, either is declining or will be soon. Analysis indicates that, by 1990, these fields will be producing some 2-3 million barrels per day less than they are now—a decrease almost as large as the entire oil production of Mexico.

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The only ways a decline in production later in this decade can be avoided are through major new finds and substantial increases in investment. Soviet reserves are among the largest in the world. The most accessible high-quality fields are being rapidly depleted, however, and the costs of production are rising dramatically.

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The Soviets have failed thus far to initiate the kind of exploration program that would be essential to proving up substantial new reserves, especially outside of West Siberia. Consequently, potentially oil-rich but remote areas of the country will contribute little significant new oil output until the 1990s.

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Production Possibilities

Investment in 1990 is likely to have to be roughly three times that of 1981 just to maintain the same level of production. Such an outlay, however, probably would damage growth prospects of other sectors of the economy.

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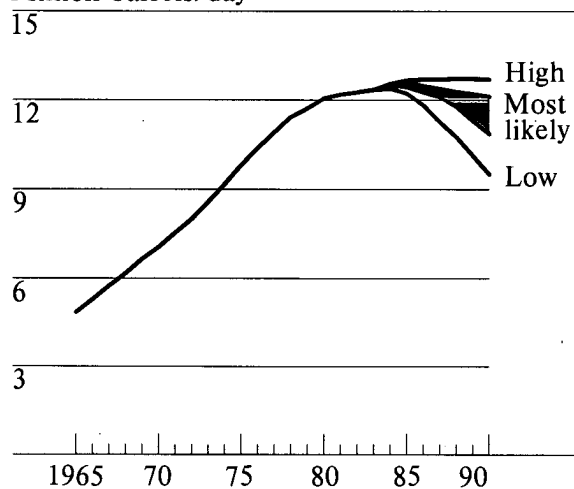
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USSR: Oil Production Forecasts At Different Investment Levels

Million barrels/day



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A doubling of investment is more likely. This probably would result in production leveling off soon after 1985 and then slowly declining. Sharp restraints on investment, which appear unlikely, could cause production to fall as low as 9-10 million barrels per day by 1990. []

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Implications

The projected decline in production means the USSR may face a gap between supply and total domestic and foreign requirements for its oil by the end of the decade. Programs under way for conservation and substitution of natural gas will be only a partial remedy. []

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Domestic consumption is still likely to grow from some 8.9 million barrels per day in 1980 to 9.5 million or 10 million barrels per day in 1990, unless conservation and substitution of natural gas proceed faster than now planned. Even with the increase in sales of West Siberian gas to Western Europe scheduled for the late 1980s, Moscow will need to export oil at least at the rate of 500,000 barrels per day to provide enough hard currency to finance minimum requirements for Western goods and services. []

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Any appreciable cuts in the roughly 2 million barrels per day of Soviet oil now shipped to Eastern Europe and other Communist countries could drive some of these already shaky economies into absolute decline. []

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If this gap between oil supply and requirements developed later in the decade, the Soviets would be likely to respond with some combination of measures. These would include even more stringent conservation at home, reduced exports, especially to Eastern Europe, some greater investment in the energy sector, and perhaps a limited sacrifice of hard currency earnings from oil exports. Such measures all represent hard decisions and trade-offs that would have to be faced more than once. []

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DIA Comment: DIA concurs with the production forecast for 1985. DIA does not agree, however, with the pessimistic projected performance of the oil industry in the latter 1980s or with the low production estimates in 1990. DIA also disagrees with the estimates and projections of consumption and oil industry investments during the second half of the decade. DIA estimates oil production by 1990 will be between 12.5 million and 13 million barrels per day. DIA estimates oil consumption will peak by 1985 and begin to decline shortly thereafter and will decline to about 9.2 million barrels per day by 1990, because of conservation and gas substitution. []

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Major Soviet Petroleum Basins

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DIA estimates further that the USSR's investment in energy will increase but will not strain other sectors of the economy. The approximately 65 billion rubles being invested in oil and gas during the 11th Five-Year Plan has a value to the Soviets, at Free World prices, of approximately 650 billion rubles. Those investments in the energy industry maintain the USSR's energy independence, permit the supply of fuel to its client states, and furnish exports supplying over 50 percent of the Soviets' hard currency earnings.

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